Report

of the

Examination of

St. Paul Fire and Casualty Insurance Company

Waukesha, Wisconsin

As of December 31, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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December 19, 2003

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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

ST. PAUL FIRE AND CASUALTY INSURANCE COMPANY
WAUKESHA, WISCONSIN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of St. Paul Fire and Casualty Insurance Company (hereinafter also SPFCIC or the company) was conducted in 1999, as of December 31, 1997. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

An examination was conducted by the Minnesota Department of Commerce as the "Lead State", along with examiners from the states of Delaware, New York, Illinois, Maryland, California, and Wisconsin. The results and findings from the Minnesota exam were reviewed and appropriately incorporated into this examination report.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuary was engaged by the Minnesota Department of Commerce. The actuary reviewed the adequacy of St. Paul Fire and Marine Insurance Company's loss reserves and loss adjustment expense reserves. The results of the actuarial work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

St. Paul Fire and Casualty Insurance Company is a stock property and casualty insurance company, which is a wholly owned subsidiary of St. Paul Fire and Marine Insurance Company (SPFMIC). SPFMIC, in turn, is a wholly owned subsidiary of The St. Paul Companies, Inc. (SPC), and an insurance holding company. Further discussion of the SPFCIC relationships to its affiliates is included in the section of this report entitled "Affiliated Companies."

SPFCIC was incorporated in 1982. The company writes a full range of property and casualty insurance coverage's on a direct basis, and cedes 100% of this business to SPFMIC.

The company writes direct premium in the following states:

Georgia	$ 8,000,261	32.4%
Wisconsin	16,728,137	67.6
All others	313	.0
Total	$24,728,711	100.0%

The major products marketed by the company include worker's compensation, various auto lines, homeowner's, commercial multiple peril, and medical malpractice. The company announced in 2001 that it will be exiting the medical malpractice business through non-renewals upon policy expiration, in accordance with regulatory requirements.

The major products are marketed through 2032 independent agents and brokers.

The following table is a summary of the net insurance premiums written by the company in 2002. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 401,764	$0	$ 401,764	$0
Allied lines	517,845		517,845	
Homeowners multiple peril	(24,483)		(24,483)	
Commercial multiple peril	1,220,119		1,220,119	
Ocean marine	(810)		(810)	
Inland marine	305,862		305,862	
Medical malpractice - occurrence	1,286,481		1,286,481	
Medical malpractice - claims made	758,203		758,203	
Workers' compensation	17,416,725		17,416,725	
Other liability - occurrence	887,110		887,110	
Other liability - claims made	712,724		712,724	
Products liability - occurrence	303,680		303,680	
Private passenger auto liability	(23,883)		(23,883)	
Commercial auto liability	563,901		563,901	
Auto physical damage	168,684		168,684	
Aircraft (all perils)	38,273		38,273	
Fidelity	66,326		66,326	
Burglary and theft	17,912		17,912	
Boiler and machinery	112,278		112,278	
Total All Lines	$24,728,711	$0	$24,728,711	$0

Of the total direct written premium, 70% represented worker's compensation, 8% for medical malpractice (a business line the company is exiting), 5% for commercial multiple peril, 6% for other liability – occurrence and claims made, while the remaining lines were individually under 3%.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of at least five members. Directors are elected annually to serve a one-year term. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Bruce A. Backberg Woodbury, MN	Senior Vice President & Corp. Secretary, SPC	2004
Thomas A. Bradley St. Paul, MN	Senior Vice President & CFO, SPC	2004
Vicki A. Danahey Hartland, WI	Vice President, SPFCIC	2004
John C. Treacy Stillwater, MN	Vice President & Corporate Controller, SPC	2004
Marita Zuraitis Hydes, MD	Executive Vice President SPF&MIC	2004

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows

Name	Office	2002 Compensation
Bruce A. Backberg	Senior VP & Corp. Secretary	$976
Thomas A. Bradley	Senior VP & CFO	$236
Paul J. Brehm	Vice President	$783
Sheila M. Brown	Assistant Vice President	$472
John R. Clifford, Jr.	Executive Vice President	$817
Paul H. McDonough	Vice President & Treasurer	$296
John C. Treacy	Vice President & Corp. Controller	$406
Marita Zuraitis	Chairman, President & CEO	$2,349

The above officers are paid by other affiliates of the company. The above salaries represent the amounts allocated to the company through the intercompany cost allocation agreement.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. One committee at the time of the examination existed and is listed below:

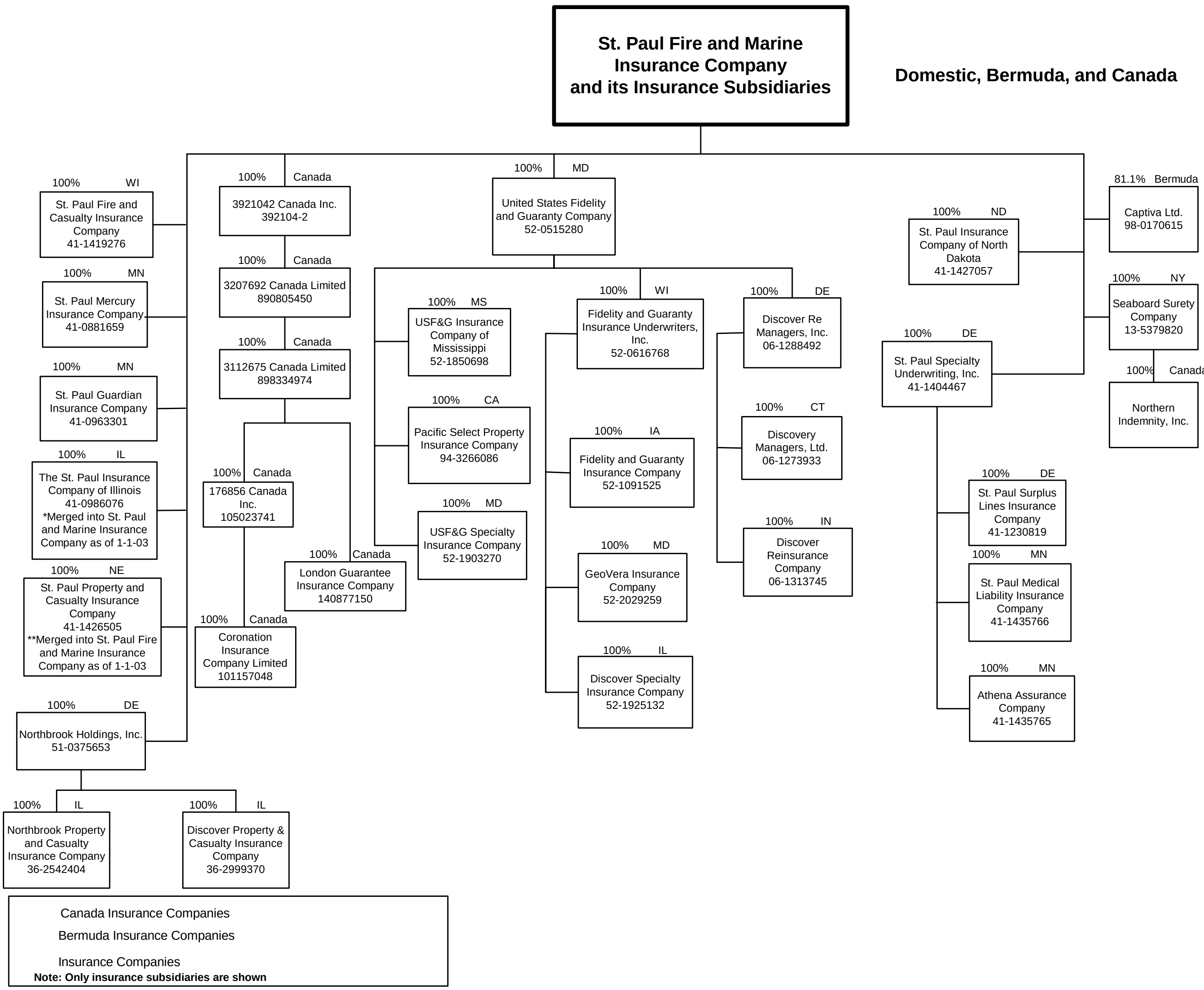
Executive Committee

Bruce A. Backberg
Thomas A. Bradley
Marita Zuraitis

IV. AFFILIATED COMPANIES

St. Paul Fire and Casualty Insurance Company (SPFCIC) is a member of a large holding company system. The organizational chart below depicts the relationships among the insurance affiliates in the group. A brief description of the significant affiliates of The St. Paul Companies follows the organizational chart.

Organizational Chart
As of December 31, 2002



The St. Paul Companies, Inc.

The St. Paul Companies, Inc., is a widely-held publicly-traded holding company, incorporated in Minnesota and is the ultimate parent of the group. SPC is engaged in property and casualty insurance as well as investment banking and asset management. It provides investment management services for SPFCIC and the group through its Investment Division. On April 24, 1998, SPC merged with USF&G Corporation. The merger was financed with SPC common stock valued at $3.6 billion, in a tax-free exchange of stock accounted for as a pooling of interest. All of the subsidiaries of the former USF&G Corporation are now wholly owned subsidiaries of SPC. As of December 31, 2002, SPC's audited financial statement reported assets of $39.92 billion, insurance reserves of $26.44 billion, debt of 2.7 billion, and payables and other liabilities of $4.13 billion, resulting stockholders' equity of $6.63 billion. Operations for 2002 produced net income of $218 million.

St. Paul Fire & Marine Insurance Co.

St. Paul Fire and Marine Insurance Co. (SPFMIC) is a property and casualty insurer domiciled in Minnesota. Most of the SPFMIC's business is written in workers compensation, other liability - occurrence, commercial auto liability, medical malpractice–claims made, other liability-claims made, commercial property and property reinsurance. SPFCIC has a services agreement with SPFMIC, whereby SPFMIC provides general and administrative services. SPFMIC also manages the St. Paul Investment Pool (short-term investments) of which SPFCIC is a participant. As of December 31, 2002, SPFMIC's audited financial statement reported assets of $17,029,714,710, liabilities of $12,103,935,301, and surplus of $4,925,779,409. Operations for 2002 produced net income of $545,986,945.

Agreements with Affiliates

SPFCIC has a services agreement with SPFMIC, whereby SPFMIC provides general and administrative services, along with a reinsurance agreement whereas SPFCIC cedes 100% of its business to its parent, SPFMIC. SPFMIC also manages the St. Paul Investment Pool (short-term investments) of which SPFCIC is a participant.

V. REINSURANCE

SPFCIC cedes 100% of its direct business to SPFMIC. The contract contained proper insolvency provisions. The terms of the intercompany reinsurance agreement are discussed below.

Affiliated Ceding Contract

Type:	100% Quota Share
Reinsurer:	St. Paul Fire and Marine Insurance Company
Scope:	All business written by St. Paul Fire and Casualty Insurance Company
Retention:	None
Coverage:	100%
Effective date:	July 30, 1982
Termination:	By mutual consent, in writing, with the approval of the Commissioner of Insurance in the state of Wisconsin.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2002, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

St. Paul Fire and Casualty Insurance Company
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$12,777,908	$0	$12,777,908
Short-term investments	270,165	0	270,165
Interest, dividends, and real estate income due and accrued	256,094	0	256,094
Total Assets	$13,304,167	$0	$13,304,167

Liabilities, Surplus, and Other Funds
As of December 31, 2002

Other expenses (excluding taxes, licenses, and fees)	$5,711	
Payable to parent, subsidiaries, and affiliates	3,995	
Total Liabilities		$9,706
Common capital stock	$2,000,000	
Gross paid in and contributed surplus	1,433,000	
Unassigned funds (surplus)	9,861,461	
Surplus as Regards Policyholders		13,294,461
Total Liabilities and Surplus		$13,304,167

Summary of Operations
For the Year 2002

Investment Income		
Net investment income earned	$669,488	
Net investment gain or (loss)		$669,488
Net Income		$669,488

St. Paul Fire and Casualty Insurance Company
Cash Flow
For the Year 2002

Net investment income		$660,628
Proceeds from investments sold, matured, or repaid:		
Bonds	$1,697,859	
Cost of investments acquired (long-term only):		
Bonds	(2,534,248)	
Net cash from investments		(836,389)
Cash provided from financing and miscellaneous sources:		
Net transfers from affiliates	2,957	
Cash applied for financing and miscellaneous uses:		
Dividends to stockholders paid	(186,000)	
Net cash from financing and miscellaneous sources		(183,043)
Reconciliation		
Net change in cash and short-term investments		(358,804)
Cash and short-term investments, December 31, 2001		628,969
Cash and short-term investments, December 31, 2002		$270,165

St. Paul Fire and Casualty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2002

Assets	$13,304,167
Less liabilities	(9,706)
Adjusted surplus	13,294,461
Compulsory surplus (subject to a minimum of $2 million)	2,000,000
Compulsory surplus excess (or deficit)	$11,294,461
Adjusted surplus (from above)	$13,294,461
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)	2,800,000
Security surplus excess (or deficit)	$10,494,461

St. Paul Fire and Casualty Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2002

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2002	2001	2000	1999	1998
Surplus, beginning of year	$12,810,973	$13,437,936	$13,710,447	$13,778,916	$12,935,914
Net income	669,488	716,037	747,489	731,531	843,002
Dividends to stockholders	(186,000)	(1,343,000)	(1,020,000)	(800,000)	0
Surplus, end of year	$13,294,461	$12,810,973	$13,437,936	$13,710,447	$13,778,916

The change in surplus during the examination period is due solely to the accumulation of investment income less the payment of dividends.

Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2002

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Ratios that involve net underwriting results are zero due to the 100% reinsurance agreement to SPFMIC.

	Ratio	2002	2001	2000	1999	1998
#1	Gross Premium to Surplus	186%	454%	667%	627%	638%
#2	Net Premium to Surplus					
#3	Change in Net Writings					
#4	Surplus Aid to Surplus					
#5	Two-Year Overall Operating Ratio					
#6	Investment Yield	5.3	5.5	5.7	5.5	6.5
#7	Change in Surplus	4.0	(5.0)	(2.0)	(1.0)	7.0
#8	Liabilities to Liquid Assets					
#9	Agents' Balances to Surplus					
#10	One-Year Reserve Devel. to Surplus					
#11	Two-Year Reserve Devel. to Surplus					
#12	Estimated Current Reserve Def. To Surplus					

Investment yields have decreased largely due to the depressed investment market. The change in surplus during the examination period is due solely to the accumulation of investment income less the payment of dividends.

Growth of St. Paul Fire and Casualty Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2002	$13,304,167	$9,706	$13,294,461	$669,488
2001	12,820,009	9,036	12,810,973	716,037
2000	13,444,291	6,355	13,437,936	747,489
1999	13,726,840	16,393	13,710,447	731,531
1998	13,791,607	12,691	13,778,916	843,002
1997	12,954,220	18,307	12,935,914	809,595

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2002	$24,728,711	None*	None*	0.0%	0.0%	0.0%
2001	58,156,741					
2000	89,608,071					
1999	85,904,394					
1998	87,888,608					
1997	91,073,775					

*100% of business is ceded to St. Paul Fire and Marine Insurance Company.

The company's gross premium written has decreased 73% from $91,073,775 in 1997 to $24,728,711 in 2002 as the parent company exits what they have determined as unprofitable product lines. Assets and surplus have remained relatively unchanged because the company retains no net underwriting results and regularly pays its investment income out to its parent in the form of dividends. Income from investments has decreased 17% from $809,595 in 1997 to $669,488 in 2002 largely due to the depressed investment market.

Reconciliation of Surplus per Examination

No changes to surplus or reclassifications were made as a result of this examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company file biographical information on a timely basis for officers and directors pursuant to s. Ins 6.52 (5), Wis. Adm. Code.

   Action—Compliance.

2. Investments—It is recommended that the company include in its custodial safekeeping agreement indemnification clauses regarding protection against loss of securities as described in the NAIC Financial Examiners Handbook.

   Action—Compliance.

Summary of Current Examination Results

There are no specific comments and recommendations as a result of this examination report.

VIII. SUBSEQUENT EVENTS

Planned Merger with Travelers Property Casualty Corporation

On November 16, 2003, SPC entered into an agreement and plan of merger with Travelers Property Casualty Corporation (Travelers) that will create the nation's second largest commercial insurer. The transaction is expected to close in the second quarter of 2004, and the combined entity is expected to have total assets of $107 billion, shareholder's equity of $20 billion, total capital of $26 billion and net written premiums of $20 billion. The company anticipates that restructuring charges in conjunction with the merger will be approximately $300-400 million.

The merger will be structured as a tax-free, stock-for-stock merger, and will be treated as a purchase business combination of SPC by Travelers under accounting principles generally accepted in the United States of America. In this merger, the acquired entity (SPC) will issue the equity interests and this business combination meets the criteria of a reverse acquisition. Each share of Travelers Class A common stock and Class B common stock will be exchanged for 0.4334 shares of SPC common stock. The resulting company will be known as The St. Paul Travelers Companies, will remain a Minnesota corporation and will have its corporate headquarters in St. Paul, Minnesota.

The transaction has been approved by the Boards of both companies, and was approved by the Federal Trade Commission in December 2003. It remains subject to approval of the shareholders of both companies as well as regulatory approvals by several states.

Western MacArthur Asbestos Settlement Agreement

SPC announced on June 30, 2002, that it had entered into an agreement settling all existing and future claims arising from any insuring relationship of USF&G, SPC and its affiliates with any of MacArthur Company, Western MacArthur Company (Western MacArthur), and Western Asbestos Company (Western Asbestos), collectively known as the MacArthur Companies.

On November 22, 2002, pursuant to the provisions of the settlement agreement, the MacArthur Companies filed voluntary petitions under Chapter 11 of the Bankruptcy Code to permit the channeling of all current and future asbestos-related claims solely to a trust to be established pursuant to Section 542(g) of the Bankruptcy Code. Consummation of most elements of the settlement agreement is contingent upon bankruptcy court approval of the settlement agreement as part of a broader plan for the reorganization of the MacArthur Companies (the Plan). Approval of the Plan involves substantial uncertainties that include the need to obtain agreement among existing asbestos plaintiffs, a person to be appointed to represent the interests of unknown, future asbestos plaintiffs, the MacArthur Companies and SPC and its subsidiaries as to the terms of such Plan. Accordingly, there can be no assurance that bankruptcy court approval of the Plan will be obtained.

Upon final approval of the Plan, the MacArthur Companies will release SPC and its subsidiaries from any and all asbestos-related claims for personal injury, and all other claims in excess of $1 million in aggregate, that may be asserted relating to or arising from, directly or indirectly, any alleged coverage provided by SPC or its subsidiaries to any MacArthur Companies, including any claim for extra-contractual relief.

The after-tax impact on USF&G's earnings in 2002, net of expected reinsurance recoveries and the revaluation and application of asbestos and environmental reserves, was approximately $354 million.

On January 16, 2003, USF&G made a payment of $740 million, plus $7 million in interest, related to the Western MacArthur settlement. This amount, along with $60 million of an initial $235 million payment made by USF&G in the second quarter of 2002, is being held in escrow pending final bankruptcy court approval of the settlement agreement as part of a broader plan for the reorganization of the MacArthur Companies. These payments would be returned to USF&G if the Plan is not approved by the bankruptcy court.

The settlement agreement also provided for the USF&G to pay $13 million (which was paid in the second quarter of 2002) and to advance certain fees and expenses incurred in connection with the settlement, bankruptcy proceedings, finalization of the Plan and efforts to achieve approval of the Plan, subject to a right of reimbursement in certain circumstances of amounts advanced.

As a result of the settlement, pending litigation with the MacArthur Companies has been stayed pending final approval of the Plan. Whether or not the Plan is approved, up to $175 million of the $235 million will be paid to counsel for the MacArthur Companies, and persons holding judgments against the MacArthur Companies as of June 3, 2002, and their counsel, and SPC and its subsidiaries will be released from claims by such holders to the extent of $110 million paid to such holders.

IX. CONCLUSION

The December 31, 2002, examination of St. Paul Fire and Casualty Insurance Company resulted in no adjustments to the reported surplus of $13,294,461. Since the last examination, assets and surplus have remained relatively unchanged because the company retains no net underwriting results and regularly pays its investment income out to its parent in the form of dividends. Income from investments has decreased 17% from $809,595 in 1997 to $669,488 in 2002 largely due to the depressed investment market.

The company reported $24,728,711 of direct written premiums. The company cedes 100% of its business to its parent, SPFMIC. The $24 million of direct premium written represents less than 1% of the total net written premiums reported by SPFMIC.

During 1998, the St. Paul Group merged with USF&G Corporation. All of the subsidiaries of the former USF&G Corporation are now wholly owned subsidiaries of SPC. This acquisition allowed SPC to broaden its market base and acquire new expertise in the insurance industry.

On November 16, 2003, SPC entered into an agreement and plan of merger with Travelers Property Casualty Corporation (Travelers) that will create the nation's second largest commercial insurer. The transaction is expected to close in the second quarter of 2004, and the combined entity is expected to have total assets of $107 billion, shareholder's equity of $20 billion, total capital of $26 billion and net written premiums of $20 billion. The company anticipates that restructuring charges in conjunction with the merger will be approximately $300-400 million.

X. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no specific comments and recommendations as a result of this examination report.

XI. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company and the Minnesota Department of Commerce, who acted as Lead State in the multi state examination, is acknowledged.

Respectfully submitted,

Russell Lamb, CPA
Examiner-in-Charge